

# IMPROPER PAYMENTS INFORMATION ACT OF 2002 DETAILED REPORT

---

## **BACKGROUND**

SSA is committed to reducing improper payments. SSA reports improper payments findings (both overpayments and underpayments) from its stewardship reviews of the non-medical aspects of Old-Age and Survivors' Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs on an annual basis. In accordance with Office of Management and Budget (OMB) guidelines implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), SSA reports as improper those payments that should not have been made or were made in an incorrect amount. Stewardship review findings provide the basis for reports to Congress and other monitoring authorities. Data from these reviews are also used in corrective action planning and in monitoring performance as required by the *Government Performance and Results Act of 1993*.

## **STATISTICAL SAMPLING**

The Old-Age, Survivors and Disability Insurance (OASDI) payment outlay rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on SSA rolls. In addition to the combined payment outlay rates for OASDI, separate rates are calculated for OASI and DI. A statistically valid national sample is selected monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the beneficiary or representative payee is interviewed, collateral contacts are made, as needed, and all non-medical factors of entitlement are redeveloped as of the current sample month. Findings are input to a national database for analysis and report preparation. Similarly, the SSI payment outlay rates are determined by an annual review of a statistically valid national sample of the SSI recipient rolls, selected monthly. Separate rates are determined for the accuracy of payments in terms of overpayment and underpayment dollars.

## **RISK-SUSCEPTIBLE PROGRAM**

The SSI program has been identified as susceptible to significant improper payments; i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million (see Table 1). SSI's estimated improper payments are expressed separately in terms of overpayments and underpayments. For fiscal year (FY) 2006, improper payments resulting in overpayments were \$3.2 billion, or 7.9 percent of outlays. Improper payments resulting in underpayments totaled \$896 million representing 2.2 percent of total outlays. Every tenth of a percent change represents \$40.3 million dollars in error. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements to those programs and activities listed in the former Section 57 of OMB Circular A-11.

Since the OMB guidance on IPIA requires the evaluation of all payment outlays; e.g., beyond the OASI, DI and SSI programs that SSA administers, for the fourth consecutive year SSA performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments.

## **IMPROPER PAYMENT RATES AND TARGET GOALS**

The improper payment rates for the OASI, DI and SSI programs for FYs 2004, 2005 and 2006 are presented in Table 1. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid.

Target accuracy goals for FYs 2007, 2008, 2009 and 2010 for the OASDI and SSI programs are presented in Table 2. In the OASDI program, SSA's goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments. For the SSI program, SSA's goal is to maintain the underpayment accuracy rate at 98.8 percent and overpayment accuracy rates of 95.7 percent for FY 2007 and 96.0 percent for FYs 2008–2010.

Table 1: Improper Payments Experience FY 2004 - FY 2006 (\$ in millions)						
	FY 2004		FY 2005		FY 2006	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASI</b>						
Total Payments	\$415,100	100%	\$430,400	100%	\$454,300	100%
Underpayments	\$535	0.13%	\$507	0.11%	\$238	0.05%
Overpayments	\$1,286	0.33%	\$210	0.05%	\$948	0.21%
<b>DI</b>						
Total Payments	\$78,200	100%	\$83,800	100%	\$90,700	100%
Underpayments	\$564	0.72%	\$473	0.56%	\$442	0.49%
Overpayments	\$1,296	1.70%	\$2,100	2.50%	\$877	0.97%
<b>OASDI</b>						
Total Payments	\$493,300	100%	\$514,200	100%	\$545,000	100%
Underpayments	\$1,099	0.21%	\$980	0.19%	\$680	0.12%
Overpayments	\$2,582	0.53%	\$2,300	0.45%	\$1,824	0.32%
<b>SSI</b>						
Total Payments	\$37,470	100%	\$39,068	100%	\$40,328	100%
Underpayments	\$504	1.3%	\$528	1.4%	\$896	2.2%
Overpayments	\$2,406	6.4%	\$2,500	6.4%	\$3,193	7.9%
Notes:						
1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.						
2. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $\pm 0.11\%$ for underpayments and $+0.32\%$ and $-0.34\%$ for overpayments; for FY 2005, $+0.13\%$ and $-0.11\%$ for underpayments and $+0.05\%$ and $-0.04\%$ for overpayments; and for FY 2006, $+0.05\%$ and $-0.04\%$ for underpayments and $+0.24\%$ and $-0.20\%$ for overpayments.						
3. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $+0.68\%$ and $-0.69\%$ for underpayments and $+1.53\%$ and $-1.54\%$ for overpayments; for FY 2005, $+0.64\%$ and $-0.56\%$ for underpayments and $+1.81\%$ and $-1.82\%$ for overpayments; and for FY 2006, $+0.64\%$ and $-0.48\%$ for underpayments and $+0.85\%$ and $-0.85\%$ for overpayments.						
4. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $\pm 0.3\%$ for underpayments and $\pm 1.0\%$ for overpayments; for FY 2005, $\pm 0.3\%$ for underpayments and $\pm 0.9\%$ for overpayments; and for FY 2006, $\pm 0.5\%$ for underpayments and $\pm 1.0\%$ for overpayments.						

**Table 2: Improper Payments Reduction Outlook FY 2007 - FY 2010**  
(\$ in millions)

	2007 target		2008 target		2009 target		2010 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASDI</b>								
Total Payments	\$576,003	100%	\$604,479	100%	\$637,154	100%	\$675,204	100%
Underpayments	\$1,152	0.2%	\$1,209	0.2%	\$1,274	0.2%	\$1,350	0.2%
Overpayments	\$1,152	0.2%	\$1,209	0.2%	\$1,274	0.2%	\$1,350	0.2%
<b>SSI</b>								
Total Payments	\$44,033	100%	\$46,144	100%	\$48,194	100%	\$50,279	100%
Underpayments	\$528	1.2%	\$554	1.2%	\$578	1.2%	\$603	1.2%
Overpayments	\$1,893	4.3%	\$1,846	4.0%	\$1,928	4.0%	\$2,011	4.0%

Notes:

1. SSA does not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2007 data will not be available until June 2008; therefore, the rates shown are targets (goals).
3. The FYs 2008, 2009 and 2010 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2008 Budget. The projections for FY 2007 are adjusted (from those presented in the Mid-Session Review) for the fact that there are only 11 payment days in that year, yet the quality review is not affected by payment days, but rather by entitlement months.

### **IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS**

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years (FYs 2002-2006), a total of over \$2.1 trillion was paid to OASI beneficiaries. Of that total, \$3.0 billion was projected to be overpaid, representing 0.15 percent of outlays. Underpayments during this same period were projected to be \$1.7 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we find that over the last 5 years, (FY's 2002-2006), a total of over \$386.7 billion was paid to DI beneficiaries. Of that total, \$5.6 billion was overpaid, representing 1.4 percent of outlays. Underpayments during this same period totaled \$1.9 billion, the equivalent of 0.5 percent of outlays.

### **MAJOR CAUSES OF OASDI IMPROPER PAYMENTS**

Major causes of improper overpayments in the OASDI program over this 5-year period are listed below (followed by a detailed description under the Corrective Actions section) and account for nearly 80 percent of the improper overpayments identified.

- Substantial Gainful Activity (SGA)
- Computations
- Relationship/Dependency (e.g., unreported marriage, not having child-in-care, and students not in full-time school attendance)
- Annual Earnings Test
- Government Pension Offset

The major causes of improper underpayments in the OASDI program have been:

- Computations
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, SSA's annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. For the 5-year period from FY 2002 through FY 2006, OASDI deficiency dollars totaled \$11.9 billion, an average of about \$2.4 billion per year. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments.

### **CORRECTIVE ACTIONS**

**SGA:** Although SGA is strictly an issue for Title II DI cases, errors attributed to SGA accounted for almost 53 percent of all OASDI overpayment deficiency dollars for the last 5 FYs (2002-2006). The process for making SGA determinations has inherent delays that contribute to the magnitude of the overpayments. Almost three-quarters of the deficiency dollars associated with SGA are due to the beneficiary's failure to report that he/she is working. The remaining one-quarter of the deficiency dollars is associated with cases where SSA receives notice of work activity, but fails to take appropriate action to adjust payment. In terms of all errors (both overpayments and underpayments), SGA accounted for about 37 percent of total OASDI deficiency dollars.

One of the efforts to address SGA-related issues was the eWork system, which was implemented nationwide in FY 2005. The eWork system is a means of controlling and processing reports of work and earnings made by individuals receiving disability benefits. The application provides improved management information and tighter controls on the work Continuing Disability Review (CDR) process.

The Continuing Disability Review Enforcement Operation (CDREO) process is designed to alert Title II and concurrent Title II/Title XVI claims with potentially uninvestigated substantial earnings after disability onset. However, these alerts are dependent upon the earnings posting operation, which lags well behind when wages are actually earned. In addition, some alerts are generated which result in no change to the worker's benefits because the work is determined not to be SGA due to special work accommodations or other factors. However, review is still required to determine whether the beneficiary's work activity is or is not SGA.

SSA has developed software that tracks the disposition of overpayments over time beginning with when they are detected. This software separates overpayments by dollar ranges and can be used to isolate debts based on a variety of other factors, such as the age of the beneficiary or type of disability. To better understand the problems with processing SGA cases, SSA has analyzed several hundred recently established SGA overpayments. One objective is to develop a method which differentiates overpayments that reflect significant problems from those that appear to be less problematic. We anticipate that SSA's review of the CDREO alert process will produce a comprehensive picture of how SGA affects benefits. We are currently developing a plan to use the results of this review to prioritize this workload through profiling and statistical modeling.

SSA also conducted an analysis of the Office of Child Support and Enforcement (OCSE) database of new hires to determine whether a matching operation with that database would be useful to SSA in identifying unreported work that affects DI benefits. The assumption was that identification of unreported wages from a match with the OCSE database would be timelier than the current annual earnings reporting/processing operation. SSA examined a sample of 1,003 cases where there was a match between the OCSE new hires file and the Master Beneficiary Record. A retrospective examination of the sample cases found that in none of the cases would having this "new hire" information lead to an earlier determination to suspend or terminate disability benefits sooner than through the current CDR process. Consequently, SSA has concluded that an ongoing matching operation with OCSE new hires file, and the early knowledge of new employment, would have little, if any, effect in reducing improper payments.

**DEATH NOTIFICATION:** Timely and accurate death data enables SSA to better effectively administer programs and increase prevention of incorrect payments. SSA is working with State governments and other jurisdictions to improve the current death registration process. The most efficient manner to improve timeliness and accuracy of State data is by using an Electronic Death Registration (EDR) system, a web-based automation of the death registration process. EDR electronically links the participants in death registration and contains an online real-time Social Security Number (SSN) verification process. SSA's goal is to receive a verified death report within 5 days of death and within 24 hours of the report's receipt in the State repository. EDR helps improve the accuracy of the death master file that we share with other Federal agencies. SSA currently receives death data via EDR from 16 States, New York City, and the District of Columbia. Fourteen States are in the process of implementing EDR. These States will implement by September 2008.

**COMPUTATIONS:** For the last 5 FYs (2002-2006), errors attributed to computations accounted for about 37 percent of all OASDI underpayment deficiency dollars and 11 percent of all OASDI overpayment deficiency dollars. In terms of all errors, computations accounted for 19 percent of total OASDI deficiency dollars for the period. For the 5-year period, leading causes of computational related underpayments were calculations involving family maximums, Automatic Earnings Reappraisal Operation (AERO), primary insured amount, and adjusted retirement factor/delayed retirement credit. The major cause of computation-related overpayments were cases involving the Windfall Elimination Provision.

SSA has developed two automation tools, "MacPaste" and "AEROWiz," to address errors involving computations. The first tool, MacPaste, helps eliminate transcription errors made by technicians who enter benefit rate and Primary Insurance Amount (PIA) information into the system, thereby enhancing productivity and accuracy. The second tool, AEROWiz, helps technicians process recomputations of benefit amounts by providing them with a convenient summary of all of the issues involved with the case. AEROWiz also helps technicians make decisions when determining years of coverage in cases involving the Windfall Elimination Provision and in cases involving earnings postings within the prior six years.

**RELATIONSHIP/DEPENDENCY:** This category involves a variety of issues such as unreported remarriage, not having child-in-care, and students who were not in full-time attendance. The deficiency dollars in this category are all overpayment-related. Errors attributed to relationship/dependency issues accounted for about 9 percent of all OASDI overpayment deficiency dollars. This category accounted for about 3 percent of total OASDI deficiency dollars.

SSA is evaluating several recommendations to address relationship/dependency errors. These recommendations include potential systems enhancements related to entitlement of stepchildren, procedural revisions and a possible legislative change.

**WAGES/SEI:** Wages or self-employment errors result when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. Earnings-related errors most often result in underpayments to the beneficiary. For the period FY 2002-2006, about 90 percent of the deficiency dollars for this category were underpayments. Errors attributed to wages or self-employment issues accounted for about 25 percent of all OASDI underpayment deficiency dollars and 1 percent of all OASDI overpayment deficiency dollars. This category accounted for 8 percent of total OASDI deficiency dollars.

The Agency has taken a number of actions to reduce earnings-related errors. SSA added language to the improved Social Security Statement to remind the public to inform SSA of incorrect earnings postings. Beginning in FY 2000, all workers age 25 or over began receiving their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits.

SSA has also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled SSA to exceed its goal (80 percent) to receive all Form W-2s electronically for tax year 2006. As of July 2007, SSA received 239,553,638 (84.4 percent) of W-2s electronically. For tax year 2007, SSA's goal is to receive 80 percent of all W-2s electronically.

To further improve posting of earnings records, in June 2005 SSA implemented the Social Security Number Verification Service (SSNVS). SSNVS allows registered employers or their third party representatives to verify the names and SSNs of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSNs per screen with immediate results or upload a file with up to 250,000 names and SSNs with the results available the next business day. In calendar year 2007, through September 28, 2007, SSA has verified over 43.5 million names/SSNs for nearly 33,000 employers.

The first phase of the Earnings Alert Project, which addresses the earnings problems prospectively, was implemented in October 2006. This phase automated the earnings review of Internet claims and extended the automation of the review criteria to all initial claims. Past analysis has shown that the Internet review criteria is effective in identifying earnings record inaccuracies and will effectively identify the source of the inconsistency. In addition, the revisions will eliminate an estimated 50 percent of the nonproductive alert reviews.

Earnings that remain in suspense after the annual posting cycle are wage or self-employment earnings that are not matched to an earnings record after all routine matching operations are complete. SSA is working to develop automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings; and,
- Match and move items from suspense to the beneficiary's earnings record.

SSA has also initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. These new processes have removed about 11 million wage items from the earnings suspense file. SSA also expects this re-examination process will produce information that will help the Agency to better manage the suspense file.

**WC:** SSA has an ongoing effort to prevent future problems in the WC area, as well as clean up past problem cases. However, this manually-intensive workload continues to be a challenge. Although WC offset is solely limited to Title II DI cases, errors attributed to WC offset accounted for about 31 percent of all OASDI underpayment deficiency dollars and 3 percent of all OASDI overpayment deficiency dollars. This category accounted for 11 percent of total OASDI deficiency dollars.

Many of the problems associated with this complex workload are due to technical difficulties in determining the correct rates and dates to be used in WC computations. There is no automated verification of WC payments, so SSA relies mainly on beneficiary disclosure of WC payments and changes. Many beneficiaries do not report this information on a timely basis, if at all. Consequently, some of these individuals are paid a higher Social Security disability benefit than they are eligible for, while others are underpaid since their WC stopped and their SSA benefit amount is not increased accordingly.

In addition, the variations in state laws regarding the offset of Social Security benefits for both WC payments and public disability benefits (PDB) contribute to payment problems. Some beneficiaries also receive a combination of weekly payments, PDBs and a lump-sum settlement. The combination of variance in state laws and multiple types of payments of WC/PDB received by a beneficiary often results in technical errors.

In FYs 2006 and 2007, SSA's processing centers (PCs) conducted a series of studies to determine the most productive cases to work in future years. Also in FY 2007, as part of a comprehensive approach to WC case processing, the PCs turned their attention to the quality of current WC case processing as the best avenue for fixing the perennial WC cleanup problem. To track the quality of all WC cases, the WC Quality Today (WCQT) project was launched in March 2006. WCQT incorporates a web-based quality review process and online reports providing accuracy and error data for each PC.

As part of WCQT, three initiatives aimed at improving the overall quality of the work have been implemented:

1) uniform random sampling of WC/PDB dispatches; 2) targeted reviews of highly error-prone cases; and, 3) refresher training for technicians who process WC cases. The initiatives have paid off with a 9.3 percent improvement rate in WC/PDB payment and accuracy rate from March 2006 to May 2007. In addition, efforts to improve processing of these complex claims have included enhancements to the Interactive Computation Facility for computing WC offset and specialized training for technicians.

For FY 2008, the PCs expect to review 10,255 clean-up cases, using the criteria developed in FY 2006 to determine which cases yield the highest return on investment, while continuing to concentrate on the quality of current WC case processing.

**DUAL ENTITLEMENT:** SSA has also improved its process for ensuring SSI recipients file for benefits in the OASDI program. One of the conditions for SSI eligibility is that individuals file for any other benefits that they may be eligible to receive. SSA has identified nearly a half-million SSI disability recipients, current and former, who are potentially eligible for OASDI payments after earning sufficient work credits to qualify for the Disability Insurance program while receiving SSI benefits.

To prevent future missed entitlement, we have enhanced programs on both the SSI and OASDI systems. In FY 2007 we enhanced both the Title II and the Title XVI modernized claims systems to include questions that assist in the development of potential entitlement to SSI and other OASDI benefits. In addition, we implemented an enhancement in the SSI system to add the date that an OASDI claim was filed for documentation, and historical reference. Future enhancements planned for FY 2008 include implementing a follow-up alert when responses during an SSI interview reflect that an OASDI claim should be taken but none has been adjudicated, and establishing an automated control or lead for other potential benefits.

**ANNUAL EARNINGS TEST (AET):** AET errors involve situations where deductions in payments related to a beneficiary's work after retirement age were not taken into account or were not computed properly. Errors attributed to AET accounted for about 1 percent of all OASDI underpayment deficiency dollars and 7 percent of all OASDI overpayment deficiency dollars. Nearly 94 percent of the deficiency dollars in this category are Retirement and Survivors Insurance (RSI) overpayments. This category accounted for 5 percent of total OASDI deficiency dollars.

When a person has earnings after retirement, he/she is asked to report his/her earnings when those earnings exceed the annual exempt amount or when a change in expected earnings will affect benefits payable. SSA uses these reports to adjust benefits for the year. SSA's Stewardship review data indicates the leading cause of AET error is that wages were not reported or were reported incorrectly.

If a beneficiary does not provide an annual estimate or report (or provides an incorrect report), the enforcement process will identify the earnings when they are posted to the earnings record. SSA will develop through the FO to determine if withholding of benefits is applicable. Stewardship reviewers do not record an AET error until after the full enforcement process has been completed for a particular year.

**GOVERNMENT PENSION OFFSET (GPO):** GPO rules generally require Social Security benefits for a spouse or surviving spouse who receive a monthly pension from a State or local government agency to be reduced. Errors attributed to GPO accounted for 6.5 percent of all OASDI overpayment deficiency dollars. This category accounted for 5 percent of total OASDI deficiency dollars.

**CRITICAL PAYMENT PROCESSING:** In cases of dire need and financial emergency, SSA field offices have the option to use the Third Party Payment System (TPPS) to issue an immediate payment directly to the beneficiary. In FY 2007, SSA implemented a real-time interface between TPPS and the Critical Payment System (CPS). The automated interface enables field office personnel to initiate an immediate payment without having to make separate inputs to TPPS and CPS and enhances both payment accuracy and programmatic accounting.

## **IMPROPER PAYMENTS IN THE SSI PROGRAM**

To better track the causes of improper payments in the SSI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years, (FY's 2002-2006), a total of over \$186.6 billion was paid to SSI recipients. Of that total, \$12.6 billion was overpaid, representing 6.8 percent of outlays. Underpayments during this same period totaled \$2.8 billion, the equivalent of 1.5 percent of outlays.

### **MAJOR CAUSES OF SSI IMPROPER PAYMENTS**

For the 5-year period, FY 2002-2006, the major causes of overpayments in the SSI program (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.)

Each of these causes individually exceeded the sum of the next three leading causes of overpayment deficiencies.

The major causes of underpayments in the SSI program for the same period (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Living Arrangements
- In-kind Support and Maintenance

### **CORRECTIVE ACTIONS**

For the entire 5-year period, 71 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim or redetermination.

**WAGES:** Wages have been one of the leading deficiency types for overpayment improper payments in the last 5 combined years. They accounted for about 18 percent of total overpayment improper payments during the 5-year period. The major factor (78 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate and timely report of new or increased wages for the recipient or deemor. Wage overpayments increased from \$416 million in FY 2005 to \$778 million in FY 2006, an 87 percent increase.

In an effort to achieve more timely and accurate reporting of wages, SSA has completed a pilot to test the feasibility of implementing large scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, SSA tested whether SSI recipients (or their representatives, parents or spouses, where deemed wages affect benefit payments) would report wages monthly using this new technique. The key issues were the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period. The results of this pilot were evaluated and SSA decided to conduct a second pilot to test a more user-friendly knowledge-based authentication process rather than the PIN/password process used in the first pilot (reporters had difficulty navigating the PIN/password process). The evaluation of the second pilot recommended expansion of wage reporting using touch-tone and voice recognition telephone technology. Timely and accurate reporting of wages offers the opportunity to prevent a substantial volume of SSI wage overpayments. SSA has planned to make enhancements to the authentication system and to allow implementation of a verification tolerance.

In both FY 2006 and FY 2007, there were significant changes in how non-medical redeterminations (RZs) and limited issues (LIs) were selected and released to the field offices. Due to Agency resource constraints, cases meeting certain characteristics were not automatically selected for redetermination unless they met specific criteria,

thereby decreasing the number of RZ and LI selections. The Agency completed almost 1.5 million RZ and LI reviews of SSI recipients in FY 2006, a decrease of 850,000 compared to FY 2005. The decrease in the number of RZs and LIs selected may have contributed to the 87 percent increase in wage overpayments for FY 2006.

Wages have been the leading cause of underpayment improper payments in 4 of the last 5 years, accounting for about 18 percent of total underpayment improper payments during the 5-year period. The major factor (80 percent) in wage underpayment improper payments was the failure of recipients/representative payees to report a decrease or termination in wages for the recipient or deemor. Over the 5-year period, wages earned by deemors accounted for 66 percent of underpayment improper payments and wages earned by recipients accounted for 34 percent of underpayment improper payments.

For the 5-year reporting period, wage fluctuations accounted for 48 percent of underpayment wage improper payments. The remaining improper payments resulted because recipients/representative payees failed to report a reduction or termination of wages, or because of miscellaneous reasons; e.g., wages were deemed that should not have been deemed. Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

**FINANCIAL ACCOUNTS:** For the 5-year period, financial accounts were one of the leading causes of overpayment improper payments, accounting for about 19 percent of the total. For FY 2006, financial account overpayment deficiencies project to \$682 million.

Financial account deficiencies occur when financial accounts owned by the recipient or deemor (parent or spouse of an eligible individual) exceed the resource limit and the recipient becomes ineligible for SSI payments. For each year in the 5-year period, the primary cause of these errors was the failure of the recipient or representative payee to advise the Agency of the existence of a financial account or an increase in the amount of an account.

Each year, the majority of improper payments in this category were attributed to changes that occurred subsequent to an initial claim or after completion of the last redetermination. That is, these improper payments developed after the Agency had been in contact with the recipient. In FY 2006, 94 percent of the improper payments in this category fit this description.

The *Foster Care Independence Act of 1999* gives the Commissioner the authority to require SSI applicants and recipients and those individuals whose income and resources we consider in determining an individual's eligibility and benefit amount (deemors) to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that exercised the Commissioner's authority to require the authorization that set the stage to allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination.

In February 2005, SSA initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering for this study concluded in FY 2005. A report of the findings from the Access to Financial Institutions pilot study was issued on November 3, 2006. Using the findings from a sample of initial claims and redeterminations processed by the New York and New Jersey field offices, the report presented an estimate of potential benefits and costs associated with a full national roll out of the Accuity's automated financial account verification system. SSA has pursued the issue of funding a national rollout of this initiative with OMB. Until such resources are available, we are continuing the operation of the Accuity system in the New York/New Jersey field offices and in SSA's Quality Performance offices nationwide to assist them in detecting bank account errors as part of the annual stewardship review process. We are also expanding the use of the Accuity system to field offices in the state of California. The target date for implementing this expansion is November 1, 2007. Eventually, a system that integrates the Accuity system with the Modernized Supplemental Security Income Claims System will be built to handle verifications in a more efficient and less labor-intensive manner. The development of

such a system is currently in the planning and analysis stage, but also dependent on the successful acquisition of additional funding.

**LIVING ARRANGEMENTS:** Living arrangements were the second leading cause of underpayment improper payments for 4 of the last 5 years, and the leading category in FY 2002. This category includes people who should have been paid based on “living in own household” (e.g., home ownership, rental liability, paying pro rata share of household expenses, but were paid based on another living arrangement.

Over the 5 years, this deficiency primarily occurred (78 percent) when the recipient/representative payee failed to provide an accurate timely report showing that the value of the one-third reduction (the reduction factor when a recipient is not paying his or her full share of the household expenses) no longer applied. Overall, recipients and representatives were responsible for the vast majority of underpaid dollars (80 percent) in this category because they initially provided an incomplete or inaccurate report or failed to report a change. For each year in the 5-year period, over one-half of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination. Only 5 percent of the total underpayment improper payments resulted when the recipient changed a contribution after receipt of the first SSI payment.

**IN-KIND SUPPORT AND MAINTENANCE (ISM):** ISM deficiencies were the third leading cause of underpayment error dollars over the last 5 years. The primary cause of ISM underpayment improper payments for the 5-year period was when the recipient was no longer receiving ISM yet it continued to be figured into the payment calculation (82 percent). This occurred because recipients/representative payees failed to report changes or made an incomplete/inaccurate report (73 percent) and because field offices inaccurately processed cases (19 percent). The remainder occurred because of administrative tolerances or mail-in redeterminations that did not solicit information to identify the change in ISM. For the 5-year period, over one-half of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination.

On February 7, 2005, SSA issued regulations to simplify the SSI exclusions for automobiles and household goods and personal effects, and to simplify the counting of ISM by eliminating clothing from consideration. These changes simplify several SSI rules and make them less cumbersome to administer and easier for the public to understand. These simplifications were implemented by SSA field offices, and in October 2006, the SSI computer system was modified to fully support these simplifications. In FY 2007, SSA revised three of the information collection forms used to develop ISM in order to make them more effective. SSA is continuing to look at options for simplifying living arrangements and ISM policies which we believe would contribute to a reduction in underpayments.

The redetermination process is one of the most powerful tools available to SSA for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when the Agency is not in contact with the individual. Clearly, more frequent redeterminations will result in reductions in the level of improper payments.

### **MEDICAL ASPECTS OF THE DI AND SSI PROGRAMS**

The medical aspects of the DI and SSI programs are administered through State agencies at the initial claim, reconsideration and continuing disability review stages of the disability process. SSA has established net accuracy rate goals for Disability Determination Service (DDS) allowance and denial decisions. The goals reflect the percent of initial claims that maintain their original DDS decision after Federal review and subsequent additional development, as required.

The allowance, denial and overall accuracy rates for FYs 2005 and 2006 are presented in Table 3. These rates are determined by SSA's quality assurance review of initial claims. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, SSA established a combined allowance and denial goal for net accuracy. The goal for FY 2007 is 97 percent. FY 2007 data will be available in January 2008.

Table 3: DDS Initial Claim Net Accuracy		
Initial Claim Net Accuracy	FY 2005	FY 2006
Allowance	98.0%	98.1%
Denial	95.3%	95.1%
Combined	96.3%	96.2%

Note: The changes from FY 2005 to FY 2006 are not statistically significant.

The *Social Security Act* also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations; i.e., pre-effectuation reviews (PER). To the extent feasible, the selection is made from those determinations most likely to be incorrect.

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected. For FY 2005, the Actuary has produced estimates that PER saved \$720 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 14:1.

The *Social Security Act* now includes an extension of the PER review of favorable adult disability decisions to the SSI program. This initiative supports the President’s management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this initiative.

**IMPROPER PAYMENTS FOR ADMINISTRATIVE OUTLAYS**

An evaluation was conducted of SSA’s FY 2006 administrative payments and they were determined not to be susceptible to significant improper payments. In FY 2006, SSA outlaid \$10,557 million to administer the OASI, DI and SSI programs. These costs largely consisted of payroll and benefits but also included payments to State agencies for the DDS.

**RISK ASSESSMENT**

To better facilitate the risk assessment process, SSA segmented administrative payments into several categories. These categories were used to analyze and determine SSA’s vulnerability to improper payments.

Table 4: FY 2006 Administrative Expenses (\$ in millions)	
Payroll and Benefits	\$5,272
State DDS	\$1,772
Other Administrative Expenses*	\$3,513
<b>Total Administrative Payments</b>	<b>\$10,557</b>
Notes:	
*Other Administrative Payments includes Travel, Transportation, Rents, Communications & Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land & Structure, Grants, Subsidies, & Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.	

Using OMB guidelines, SSA conducted a risk assessment on each of the categories listed in Table 4 on the previous page. The payment categories were reviewed and any identified improper payments were assessed versus the entire payment category. The result of this analysis showed that SSA's administrative payments were not susceptible to significant improper payments.

Also considered as part of the risk assessment were:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive edits inherent in SSA's administrative payment systems; and,
- The strong internal control structure SSA has in place to prevent, detect, and recover improper administrative payments.

Based on the results of the overall risk assessment, the Agency determined that SSA's administrative payments do not meet the criteria for further reporting to Congress or OMB based on the OMB-issued guidance.

### **RECOVERY AUDIT PROGRAM**

Section 831 of the *Defense Authorization Act for FY 2002* added a subchapter to the U.S. Code (31 USC 3561-3567) that requires agencies that enter into contracts with a total value in excess of \$500 million in a FY to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

OMB guidance states that Agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments to contractors resulting from payment errors. To comply with this guidance and support the evaluation that administrative payments are not susceptible to significant improper payments, SSA has established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer-assisted auditing techniques are utilized to identify possible duplicate payments. SSA's in-house recovery audit program employs an automated query system to identify payments made to the same vendor, with the same invoice date and for the same amount to help identify payments which represent a higher risk of being double payments.

Results from our in-house recovery audit program and quality review process continue to confirm that Administrative Payments are well below the threshold established for reporting improper payments. These results further validate SSA's existing controls for the prevention, detection, and collection of improper payments. Results from the recovery audit program continue to reinforce our internal control structure, thus demonstrating our commitment to the President's Management Agenda.

### **PROGRAM SCOPE**

The recovery audit program scope included a review of administrative contractor payments for FY 2006 totaling \$1.4 billion. Of that amount, about 0.12 percent or \$1,712,454 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments.

The Agency has elected to exclude the following classes of contracts from the scope of the recovery audit:

- Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and condition of the contract.

- Cost-type contracts that were completed, subjected to final contract audit and, prior to final payment of the contractor’s final voucher, all prior interim payments made under the contract were accounted for and reconciled.

Agency Component	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
Administrative Expenses	\$1,383	\$54.876	\$1.712	\$1.712	\$.196	\$.196	\$1.908	\$1.908

**ACCOUNTABILITY FOR IMPROPER PAYMENTS**

In June 2002, SSA released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased overpayment detection and prevention, new measurement strategies, potential changes in SSI policies and Agency accountability. We are extremely pleased that the Government Accountability Office (GAO) removed the SSI program from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA’s progress to improve the management of the program. We are continuing our efforts to improve our management of the SSI program across three fronts: improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To achieve these goals, SSA executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. Progress is monitored in regular meetings with SSA executives.

**AGENCY INFORMATION SYSTEMS TO REDUCE IMPROPER PAYMENTS**

**BACKGROUND**

In the SSI Corrective Action Plan discussed above, the Agency has identified a number of information technology (IT) initiatives aimed at prevention, detection and collection of improper payments. SSA has a formal process to plan and execute IT projects and the IT budget. The Information Technology Advisory Board (ITAB) is an executive body offering advice to the Agency’s Chief Information Officer (CIO) on areas of Capital Planning and Investment Control (CPIC). The ITAB is comprised of the CIO, Deputy Commissioner for SSA, all Deputy Commissioners and other executive staff.

As part of the CPIC environment, IT plans outlining Office of Systems IT initiatives are reviewed and approved by the ITAB prior to the beginning of the fiscal year. These IT plans become the blueprint for the developmental and maintenance activity within the Office of Systems.

On a quarterly basis, the ITAB reviews the progress of each IT plan and the agreed capital investments. Major investments are assessed at key decision points to ensure they are well founded, are achieved within the approved cost and schedule, and provide expected benefits. They may be redirected or terminated when necessary. These activities are key to SSA's capital investment and control process.

**IT STRATEGY**

Starting in FY 2005, the "clusters" of IT projects were replaced with Strategic Objective (SO) Portfolios. These SO Portfolios are based on SSA's nine Strategic Objectives as defined in the Agency Strategic Plan. There are also two additional portfolios not corresponding to an Agency Strategic Objective: one for Infrastructure and one for

Legislation. The majority of improper payment IT initiatives fall within two SO portfolios: 1) Improper payments; and 2) Manage finances.

Provided the Agency develops the IT initiatives identified to improve preventing, detecting and collecting improper payments and is given the resources to do so, SSA will be in a better position to achieve its strategic objectives in this area. The President's FY 2008 budget for SSA is \$9,597 billion for Limitation on Administrative Expenses (LAE), an increase of \$299 million in discretionary budget authority over SSA's FY 2007 appropriation. With the President's FY 2008 budget, SSA will continue to improve the disability program through automation and process improvements; maintain service in the face of growing workloads; increase SSA's overall productivity; and improve administration of the nation's retirement, survivors, and disability programs. The budget supports SSA's efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include investments in continuing disability reviews and SSI non-disability redeterminations, as well as the use of computer matches to identify and prevent overpayments. Through these activities, SSA can ensure the ongoing stewardship of our programs.

### **STATUTORY AND REGULATORY BARRIERS TO REDUCING IMPROPER PAYMENTS**

SSA continuously develops legislative proposals to improve administration of the OASI, DI and SSI programs. For example, on May 29, 2007, SSA sent to Congress for their consideration amendments to the OASI, DI and SSI programs in support of the President's FY 2008 budget. One of the proposals would simplify administration of the DI program by modifying the rules for computing the reduction under the workers' compensation (WC) offset provision. (Receipt of WC payments often results in a reduction in the benefits payable to a disabled worker and the worker's entitled family members.)

**WC OFFSET SIMPLIFICATION PROPOSAL:** Simplifying the DI program reduces improper payments. One of the proposals in the President's budget would change the amount of the offset to a benefit reduction equal to the lesser of the worker's monthly WC benefit or a flat percentage (31 percent) of the Social Security DI benefits payable to the disabled worker and the worker's family. In addition, the offset period would be limited to no longer than 5 years from the worker's first month of entitlement to disability benefits.

The current WC offset provision is a complex aspect of the Social Security DI program, is difficult to administer, and is error-prone. The provision requires SSA to 1) base the initial offset on an amount equal to 80 percent of the worker's pre-disability earnings, 2) continually monitor the amount of the ongoing WC payment, 3) apply special rules when adding annual Cost-of-Living-Adjustments (COLAs) to the benefit payable, and 4) redetermine every three years the amount of the pre-disability earnings used in the offset. Due to the complexity of the provision, SSA devotes substantial staff time to reworking cases in which errors were made. This proposal would simplify the administration of the WC offset provision, thus allowing SSA to use its administrative resources more effectively. These resources could be applied to other pressing workloads at SSA—e.g., conducting Continuing Disability Reviews.

### **AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI AND SSI PROGRAMS**

In FY 2007, SSA collected \$2.49 billion in program debt. The Agency's debt collections are achieved in a variety of ways that have been developed over the years. Collection techniques include SSA's internal methods such as benefit withholding and billing and follow-up. In addition, the Agency uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (DCIA) for OASDI debts and the *Foster Care Independence Act of 1999* (FCIA) for SSI debts. These debt collection tools include the Treasury Offset Program (TOP), credit bureau reporting, administrative wage garnishment (AWG) and Federal Salary Offset (FSO).

SSA's strategy for improving its debt collection program is to focus on the techniques that provide direct collections from revenue sources or that can be easily integrated into existing systems. In keeping with this strategy, SSA has worked steadily over the years to build the strong debt collection program it now employs. Although the Agency has a history of striving for maximum stewardship of the OASI and DI Trust Funds and the General Fund, it

launched an expansion of debt collection tools in the early 1990s that continues today. Taking advantage of the legal authorities granted to it in the *Omnibus Budget Reconciliation Act of 1990* (for OASDI debts), and the *Deficit Reduction Act of 1984* (for SSI debts), SSA began its expansion with the implementation of tax refund offset (TRO) in 1992. The Agency enhanced its TRO program twice in the 1990s and then merged it with TOP in 1998. To date, SSA has collected over \$1.3 billion in delinquent debt via TRO/TOP.

In 1998, SSA began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, the Agency also began reporting those delinquent debts to the credit repositories. Since 1998, the negative consequences of credit bureau reporting have contributed to the voluntary repayment of over \$409 million in delinquent overpayments by people who do not want to submit to the reporting or to other aggressive collection tools such as TOP and AWG.

After receiving the authority to use mandatory Cross Program Recovery (CPR), or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, SSA developed and implemented this internal collection method. Since 2002, the Agency has collected over \$342 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

SSA received additional authority for CPR in the *Social Security Protection Act of 2004*. We are now able to use mandatory CPR in situations where CPR was not previously permitted. SSA started using this new authority in January 2005 to collect SSI overpayments from large OASDI underpayments, even when the individual remains eligible for SSI monthly payments. In August 2007, SSA further expanded its use of CPR to include recovery of OASDI overpayments from SSI underpayments. Since implementing this expanded CPR process, SSA has recovered about \$4.7 million in OASDI overpayments. The Agency intends to continue expanding the CPR program to other situations in the future.

SSA also implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each pay day from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. The first garnishment orders were issued in April 2005 to the employers of OASI, DI and SSI debtors who became delinquent in 2005. SSA expanded its AWG program to all existing delinquent debtors in August 2006. To date SSA has recovered over \$13 million in AWG.

In November 2005, the Agency implemented a new initiative called the Non-Entitled Debtors (NED) program, also authorized by the FCIA. This automated system enables SSA to collect debts owed by people who do not have a master record with the Agency. Debtors such as representative payees who receive overpayments after the death of the beneficiary are controlled by this system. Work is continuing on the expansion of this system, which will eventually include all types of debtors who are not entitled to benefits and will allow SSA to collect NED debts by means such as TRO, AWG and FSO.

FSO, authorized by the DCIA for OASDI debts and the FCIA for SSI debts, was also implemented in FY 2006. FSO is the process whereby the salary paying agency withholds amounts each pay day from an employee of the Federal government who owes a debt to a creditor agency. For SSA, FSO is a debt collection tool used to collect delinquent SSA overpayments owed by Federal employees, including employees who work for SSA.

In addition to the preceding improvements, SSA implemented other debt collection techniques of major import. One such improvement is called "Netting," an automated process implemented in September 2002 to automatically net SSI overpayments against SSI underpayments. Since implementing automatic netting, SSA has prevented over \$471 million in overpayments computed and underpayments paid through September 2007.

SSA also helped other Federal agencies with debt collection by collaborating with Treasury's Financial Management Service and Internal Revenue Service to develop two collection programs for collecting delinquent non-tax and tax debt: (1) The Benefit Payment Offset program, authorized by the DCIA, collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program, authorized by the *Taxpayer Relief Act of 1997*, collects delinquent tax debts from Social Security benefits.

Continued improvement in the Agency's debt collection program is also underway. The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and administrative fees, interest-charging, or indexing a debt to reflect its current value. For additional information, please refer to the Debt Management narrative in the *Other Reporting Requirements* section of the report.

This page was intentionally left blank.